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Feasibility of the Universal City Counter-Culture Complex

Economics Research Associates

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Prepared for

MCA, Inc.

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Los Angeles, California
McLean, Virginia
Miami Springs, Florida
Brussels, Belgium

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Section I

INTRODUCTION

MCA is interested in developing an evening entertainment complex on 2.5 acres of prime property adjacent to the Universal City tour center and its existing parking facilities. The planned entertainment facilities will be developed conceptually as a "counter culture complex" to appeal to the teen-age and young adult market. Although the total project design is oriented to youth, it is contemplated that a much broader appeal will be achieved. The complex will combine music, film, food, and atmosphere in one location to create a recreational center of focal importance in Southern California. The stated objective of the facility is to provide a diverse variety of top quality entertainment at fair prices in pleasant surroundings.

Included in the concept are a multiple-screen movie theater, a cabaret featuring folk rock music, an outdoor entertainment plaza area, and a discotheque offering hard rock music and dancing. The inclusion of a small legitimate theater and supporting restaurant facilities has also been considered. These facilities will be integrated with the existing amphitheater which will be improved by the addition of 1,200 seats (to a total of 5,000) and a sound baffling site modification. Extensive attention is addressed to the number and type of movie theaters that should be included in the complex. Although considerable potential for specialty shopping is generated by the complex, analysis of the type of supporting retail space has been excluded from the objectives of this study.

The proposed development embodies several conceptual principles--the complex is intended to bring together the various physical elements described above to form an uncomplicated physical development in a unified environment that in the composite provides a "sense of place."

Economics Research Associates was retained to determine the feasibility of such a development on the subject property. The primary objectives of the study are as follows:

- Ascertain the potential market support for the complex.

- Establish priorities for the various components of the complex and outline a phased plan of development indicating mix and size of facilities which can be justified by the projected attendance taking into consideration seasonality factors.
- Develop a pro forma financial analysis of the recommended development plan.

A secondary objective of the study is to assess the impact of this project on the acceleration of the overall land use plan of Universal City. To satisfy the study objectives, background data were gathered in Los Angeles County over a seven-week period. Interviews were conducted with prominent motion picture theater operators, film booking agents, booking agents for folk and hard rock groups, and leading legitimate theater producers and financial managers. A list of field references for the study is exhibited in Appendix A.

The following Section II of the report summarizes essential findings of the research. Section III analyzes essential demographic data with emphasis on the size of the youth market. Sections IV through VII develop separate feasibility analyses on motion picture theaters, music facilities, outdoor entertainment activities, and restaurants. Section VIII treats the problem of legitimate theater. Section IX treats the need for additional parking. Summary feasibility is presented in Section X.

This study was conducted under the administrative supervision of Harrison A. Price, President of Economics Research Associates. James H. McCarthy, Vice President, served as project manager, and Paul R. Mikus, as project leader, carried out the research.

Section II

MAJOR FINDINGS AND CONCLUSIONS

The major findings and conclusions developed in the course of this study are summarized briefly in the following paragraphs. The body of the report contains elaboration and substantiation.

Based on the results of this analysis, on-site development of the following facilities is recommended:

1. A fourplex motion picture theater with seating capacities of 650 - 300 - 300 - 200.
2. Two restaurants with seating capacities of 200-250 persons each plus bar for first year of development
3. Two clubs to house folk and rock music with seating capacities of 400 in each.
4. An additional 625 parking spaces.
5. An outdoor entertainment plaza with overhead grid.

These recommendations are based on both qualitative and quantitative factors including locational characteristics, existing and planned competition, magnitude of market support, and realistic estimates of on-site attendance. ERA discourages the inclusion of a small legitimate theater within the complex.

In order to maximize the synergistic impact of the proposed complex, ERA suggests that this unique concept be developed all at once rather than in a phased plan. The intended purpose of the center is to create a "people place," and each of the planned elements are crucial in establishing a composite identity for the Universal City entertainment center.

MOTION PICTURE THEATERS

ERA recommends a fourplex theater development. Economies of operation and a greater filming flexibility are the major advantages of this kind of operation. Seating capacities of 650-300-300-200 are recommended as an optimum configuration. A house with 650 seats is large enough to attract exclusive and limited multiple runs as well as sustain respectable attendance figures on an annual basis. It is better to turn away crowds on infrequent occasions rather than consistently have a large empty house. Additionally, the motion picture theater complex will offer a degree of versatility for auxiliary tour usage.

The motion picture theaters should be located within the entertainment center as an integral part of the whole complex. Removing the theaters from the complex to gain street-side marquee exposure would run at cross purposes to the objective of creating a focal place. With all of the activity intended for this center, it will create its own marquee in the more general sense of the word.

The fourplex facility in this complex should be able to attract exclusive and limited multiple runs (two to three simultaneous showings); but because of vested practices and strategies involved in booking these runs, the planned theaters are treated in the analysis as exhibiting mini-multiple (up to ten to twelve simultaneous showings) and subsequent runs.

CABARET AND DISCOTHEQUE FACILITIES

ERA considers market support for cabaret and discotheque (each with 400 seats) to be substantial, based not only on the success of comparable clubs in Los Angeles but also on Universal's booking strengths and the overall appeal of the entertainment center.

The key to a successful club facility is knowing how to book, which entails trading booking favors with agents, managers, and record companies. The initial objective in this operation should be to establish strong working relationships with key people within the music entertainment business. In this context, the contemplated Amphitheater operation and other

music, record, and entertainment business within MCA should add substantially to the effectiveness of these operations.

RESTAURANT DEVELOPMENT

The basic resident market area population is expected to create substantial support for restaurant facilities on the subject property. Added support will be derived from the day-time tourists at Universal Studios, office employees, as well as from evening attendance at the complex.

On-site restaurant demand, though supported by population demography evades normal quantification. The feasibility of a restaurant is dependent upon the capabilities of management and the image generated by the design "atmosphere," menu selection, and quality of food service provided.

Market support is strong enough to justify two restaurants with 200 to 250 seats in each. Feasibility data are presented assuming two 200-seat configurations. The format and atmosphere sought in the conceptual orientation of these restaurants is typified by operations such as Chuck's Steak House, the Chart House, Alice's Restaurant, Cafe Figaro, and Poppy's. The ambience is youth directed but popular in all segments of the market. Both facilities should experience excellent resident support as well as secondary support from attendance at Universal City. Local employment should also be an important support element. The best operation may be owner-operated but if the function is leased out, market impact will be strongest in operations emphasizing innovative and atmospheric architectural concepts.

LEGITIMATE THEATER

To include a small legitimate theater in the entertainment complex, though complementary to the general programming and market positioning intended for the night-time attractions, would require substantial subsidy.

The high inherent downside risk of live theater substantially exceeds the upside potential. Because of the financial instability of legitimate theater, ERA discourages the inclusion of a house for live stage performances. A legitimate theater may be added in a subsequent year, providing a prominent foundation or some other organiation supporting live theater, helps to subsidize the operation.

OUTDOOR FACILITIES

The existing Amphitheater will function as an integrated anchor attraction within the overall complex. Its estimated 300,000 patrons in the 12-week summer season will provide prime support for all components of the complex.

The outdoor entertainment plaza is conceived as a unique social gathering place providing light shows, extemporaneous and inexpensive entertainment, and food service. The plaza activities serve architecturally to tie all facilities together as an integrated complex. In addition to this function the plaza area will serve as the primary generator of fast food and beverage service. In the future, merchandise concessions--deferred at this time--will be concentrated within this portion of the complex.

PARKING

When all facilities are full--a condition which can be expected on the best summer nights--a total of 2,880 spaces is required. Furthermore, queing for second shows will require additional parking. The five acres of available ground for this purpose will suffice for 625 spaces which should take care of the queing parking addition on the general peak-day level. As in other mixed complexes, the lot will be easiest to operate as a general reservoir serving all facilities rather than earmarking special areas for valet or assigned parking. Should specific restaurant facilities require valet support, this can be handled as a future option.

FINANCIAL PARAMETERS

Financial cost and operating data are premised on MCA operating the Amphitheater, the outdoor plaza, the folk and hard rock facilities and parking. Restaurant and theater operations are presented as leased operations; the restaurant for operational reasons, the theaters because of potential anti-trust problems.

The project financial analysis could have been structured in the traditional format of a real estate venture, showing a constant return on land and buildings with funds returned over a 20- or 30-year period. However, it was decided to present the foregoing analysis, treating the project as an operating entity of the corporation, with a return of the advanced capital to be paid back as quickly as it is earned in a much shorter time period.

Improvement cost of the complex is estimated at $3,079,800 including site preparation and construction costs for the movie theaters, restaurants, rock houses, plaza area, Amphitheater improvements, parking and contingencies of $350,000 (at 15 percent of total costs). The total cost of the project which is estimated at $3,589,800 includes an 8.5 percent allowance for architecture and engineering, organizational and pre-opening expenses of $150,000, and interest on funds during construction in the amount of $132,000.

Feasibility data projected in detail in Section X is summarized below assuming repayment of the original corporate advance of $3,589,800 by the amount of annual cash flow with yearly interest cost reductions.

	First Year	Fourth Year	Seventh Year
Revenues	$938,500	$994,100	$994,100
Less: Expenses	904,000	746,400	619,400
Net Income	$ 34,500	$247,700	$374,700
Net Income After Taxes	$ 25,900	$185,800	$281,000
Plus: Depreciation	298,100	227,900	205,800
Net Cash Flow	$324,000	$413,700	$486,800
Cash Flow as a Percentage of Total Project Cost	9.0%	11.5%	13.6%
Indicated Payout Rate(Years)	11.1	8.7	7.4

IMPACT ON THE TOTAL SITE

The Universal City recreational center will have a significant impact on surrounding land development. It is estimated that a total of approximately 2.3 million people will visit the subject property for the studios tour and evening entertainment activities. This magnitude of annual visitation will put the project in the forefront of major tourist/recreational projects. The effect of such visibility and visitation has been demonstrated in many projects throughout the country and the world. Office, hotel, commercial, and residential development potentials will be enhanced. Specific measures of land absorption for other uses are developed by ERA in a separate study being conducted at this time.

Section III

DEMOGRAPHIC ENVIRONMENT OF RESIDENT MARKET AREA

Market support for the proposed evening entertainment complex will encompass all of Los Angeles County and fringe support in neighboring counties. The purpose of this section is to demonstrate the strength of the available resident youth market for the Universal City evening recreation center.

Population in Los Angeles County grew at an annual rate of 1.5 percent during the period 1960 through 1970. The age composition for the county has changed in this 10-year period, with a greater percentage of the population in 1970 represented by the younger age groups. In 1960, 31 percent of the total Los Angeles County population was between the ages of 12 and 34, whereas 36.2 percent of the population in 1970 was in this age bracket. In absolute numbers this was an increase from 1,873,233 to 2,558,415, an annual growth of 3.1 percent. This is greater than twice the growth rate of the population as a whole over this time period.

As shown in Table 1, the population of Los Angeles County is expected to increase to 7,676,000 in 1980 and 8,692,000 in 1990. This growth in population from 1975-1990 represents approximately a rate of growth of 1.2 percent. The percentage of population between the ages of 12 and 34 is anticipated to increase to 38.4 percent in 1980 and 39.3 percent in 1990, adding a continued support to the youth-oriented recreation center. By 1990, it is expected that Los Angeles County will have 3,416,000 persons between 12 and 34 years of age.

Table 1

RESIDENT YOUTH MARKET
IN LOS ANGELES COUNTY
1960-1990

Year	Los Angeles County Population	Percentage of Population Between 12 and 34	Population Between 12 and 34
1960	6,042,686	31.0%	1,873,233
1970	7,032,075	36.2	2,558,415
1980	7,676,000	38.4	2,948,000
1990	8,692,000	39.3	3,416,000

Source: Economics Research Associates.

Section IV

MOTION PICTURE THEATERS

General public acceptance of television has caused a sharp decline in motion picture popularity throughout the United States. According to Neilson's estimates, the average American attends motion picture theaters nine hours a year versus the 1,200 hours a year that he watches his own television set. Annual attendance at U.S. motion picture theaters dropped from 1.53 billion in 1958 to about 830 million in 1967, as shown in Table 2. Average weekly attendance has increased since 1967 and seems to indicate a rekindling interest in motion pictures. Total admission receipts have begun to increase predominantly because of rising average admission prices.

THEATER DEVELOPMENT TRENDS

In terms of theater structures, a significant change has occurred in the last three years. Historically, theaters have been large and opulent, often containing as many as 1,500 seats. Recently, theater seating capacities as well as structural sizes have diminished dramatically. Most recent developments emphasize design format ranging from 150 to 700 seats and more spartan, though tasteful furnishings. This is primarily due to the fact that larger structures simply are not required. It is currently felt that it is better to turn away crowds on infrequent occasions rather than experience overhead costs associated with a large structure that is rarely filled.

Another popular trend is the combination of 2 to as much as 6 theaters into a single complex with a common lobby and projection booth. According to the operators of these facilities, significant economies result from such an operation, as one projectionist can run as many as

Table 2

U.S. MOTION PICTURE THEATER ATTENDANCE AND REVENUES
1958-1970

Year	Total Admission Revenues (millions)	Average Admission Price	Total Annual Attendance (billions)	Average Weekly Attendance (millions)
1970	$1,175	$1.30	0.904	17.4
1969	1,097	1.24	0.844	16.2
1968	1,020	1.21	0.835	16.1
1967	960	1.16	0.830	16.1
1966	929	1.05	0.880	17.0
1965	927	0.97	0.940	18.1
1964	913	0.91	1.000	19.2
1963	904	0.83	1.080	20.8
1962	903	0.79	1.140	21.9
1961	921	0.76	1.210	23.2
1960	951	0.72	1.320	25.4
1959	958	0.67	1.430	27.5
1958	992	0.65	1.530	29.4
Growth Rates: (percent)				
1958-1970	1.4%	6.0%	(4.5%)	(4.5%)
1958-1963	(1.8)	5.0	(7.3)	(7.3)
1963-1970	3.8	6.5	(2.6)	(2.6)
1967-1970	7.0	3.9	2.9	2.9

Sources: U.S. Department of Commerce, Office of Business Economics and Business and Defense Services Administration; Film Daily Yearbook; Hope Reporters, Motion Picture Alumnae; and Economics Research Associates.

four films at a time, and snack bar facilities can be more efficiently used by staggering intermission periods. Placing more than four screens in one theater, would require an additional projectionist to operate booth facilities.

The most fundamental economic advantage of multi-screen theaters is that it enables the complex to offer films catering to a much wider range of tastes. The product flexibility allows an exhibitor to extend the performance of a successful box office film by transferring it to another screen within the complex. With only one screen, a theater owner would be forced to remove a good movie to fulfill commitments to the booking agents for incoming films.

A final trend in theater development particularly worthy of note concerns design flexibility. The advent of cable television and home video cassettes, the possible diminution of theater demand without warning due to fluctuations in consumer tastes, and the possibility of greater revenue potential in other areas have generated a unique design format in some of the newest theaters. Specifically, many such structures can also function as convention meeting facilities and present live performances.

NEW CONSTRUCTION

In the first half of 1972, 193 new four-wall theaters and 12 drive-ins were constructed in the United States. Of the indoor houses, 101 were located in shopping centers. Of the total number, 72 individual theaters, 88 twins, 15 triplexes, 15 quadplexes, one fiveplex, and two sixplexes. The additional 193 structures provided 340 new screens.

Few of the new theaters developed exceeded 700 seats. Two exceptions were General Cinema's AVCO triplex in Westwood and ABC twin theaters in Century City. The AVCO triplex contains theaters of 1,100, 784, and 485 seats. The ABC twin totals 2,300 seats, but one of the houses has been closed for the majority of time since the theater's construction. The central problem at Century City is obtaining good film products to fill the two large auditoriums.

An average of approximately 400 new indoor and outdoor theaters have been constructed annually during the last six years. Additionally an average of some 600 existing theaters have been remodeled annually. As shown in Table 3, the supply of indoor theaters, though sharply declined from a high of 20,355 in 1945, seems to have leveled off at approximately 10,000. With a 4 percent construction rate each year, the casualties are strongest among the older theaters. The new theaters are predominantly being located in suburban areas, with the large downtown houses being used for other purposes or forced to show non-current or X-rated films. As more theaters are constructed, those that will survive will be:

1. Theaters located in socially defined gathering places (such as Westwood)
2. New and modern theaters
3. Theaters located in shopping centers and suburban areas
4. Theaters operated by national or strong local circuits (such as Edwards theaters in Orange County)
5. Theaters located in areas that offer pleasant and safe surroundings at night (Hollywood now offends certain theater goers because of the unpleasant surroundings on certain streets)

THEATER DEMAND

Calculated demand for theaters tends to be misleading. Theaters are only one entertainment form of many available to market area residents. As long as theaters offer a product more enjoyable than that of other competitive dimensions, they prosper; when an inferior product is offered, attendance drops. This pattern is noted even in individual theaters. A very popular movie will draw turnaway crowds one week while the same theater will be virtually empty the following week with an unpopular show. Consequently, demand for theaters tends to be more a function of how well

Table 3

U.S. MOTION PICTURE INVENTORY
1945-1971

End of Year	Four-Wall Theaters	New Theaters Constructed[1/]	Theaters Remodeled
1945	20,355	n.a.	n.a.
1950	16,904	n.a.	n.a.
1955	14,613	n.a.	n.a.
1960	12,291	n.a.	n.a.
1965	9,850	500	700
1966	10,150	500	700
1967	13,000	375	700
1968	10,000	400	700
1969	10,000	300	600
1970	9,700	400	600
1971	n.a.	250[2/]	n.a.

n.a. means not available.
1/ Includes indoor and drive-ins.
2/ Only includes first six months of 1971.

Source: Film Daily Yearbook, International Motion Picture Almanac, and Economics Research Associates.

an individual facility is showing material responsive to public taste than a precise mathematical exercise in supply and demand. Thus, a generalized approach is required to analyze on-site theater demand, rather than a precise derivation of the number of seats or theaters supported by the resident population. Nevertheless, the generalization prevails that on-site theater attendance will be enhanced by the regional and focal appeal of the complex. A marginal picture would realize better grosses within this complex.

THEATER AUDIENCE

Approximately 75% of the motion picture audience is under 30 years of age. The high incidence of theater attendance among the younger age groups reflects their propensity to leave their place of residence for entertainment, dates, and a general acceptance of films as a medium of communication. Despite the advent of new media available in the home, the young culture should continue to seek entertainment away from the confines of the house. Actual attendance by age for 1969 to 1971 is represented in Table 4.

In a study prepared by Daniel Yankelovich, Incorporated for the Motion Picture Association of America, predictions for movie attendance by age group were developed. The Los Angeles motion picture preview house (Inmarco, Inc.) follows these projections in recruiting a prospective sample for audience reactions. Their recruiting distribution by age group is as follows:

Age Group	Percentage
Under 21	35%
21 - 24	25
25 - 29	15
30 - 39	13
40 - 49	6
50 and Over	7

Table 4

YEARLY MOVIE ADMISSIONS BY AGE

	1969	1970	1971
12 - 15	18%	16%	
16 - 20	31	27	74%
21 - 24	16	16	
25 - 29	12	13	
30 - 39	10	12	13
40 - 49	6	8	6
Over 50	7	8	7

Source: Inmarco, Inc. and Economics Research Associates

DEFINITION OF MOVIE RUNS

Important pictures occasionally are engaged in a one-theater run, termed a first-run exclusive. In some instances, an exclusive run will be the kick-off for nation wide distribution. Westwood and Hollywood, historically, have dominated exclusive showings in Los Angeles County because of the accepted prestige in premiering at these locations. Theaters along Wilshire Boulevard in Beverly Hills have occasionally obtained exclusive runs, but have not been strong enough to attract exclusive runs consistently.

A picture can also play for the first time in more than one theater. Limited multiple runs typically play in two indoor theaters concurrently (also called day and date). Westwood and Hollywood typically play day and date on important movies.

A movie can also be a part of a mini-multiple run, which would include as many as 10 to 12 theaters in greater Los Angeles. A first run multiple would open a picture in 30 to 35 theaters.

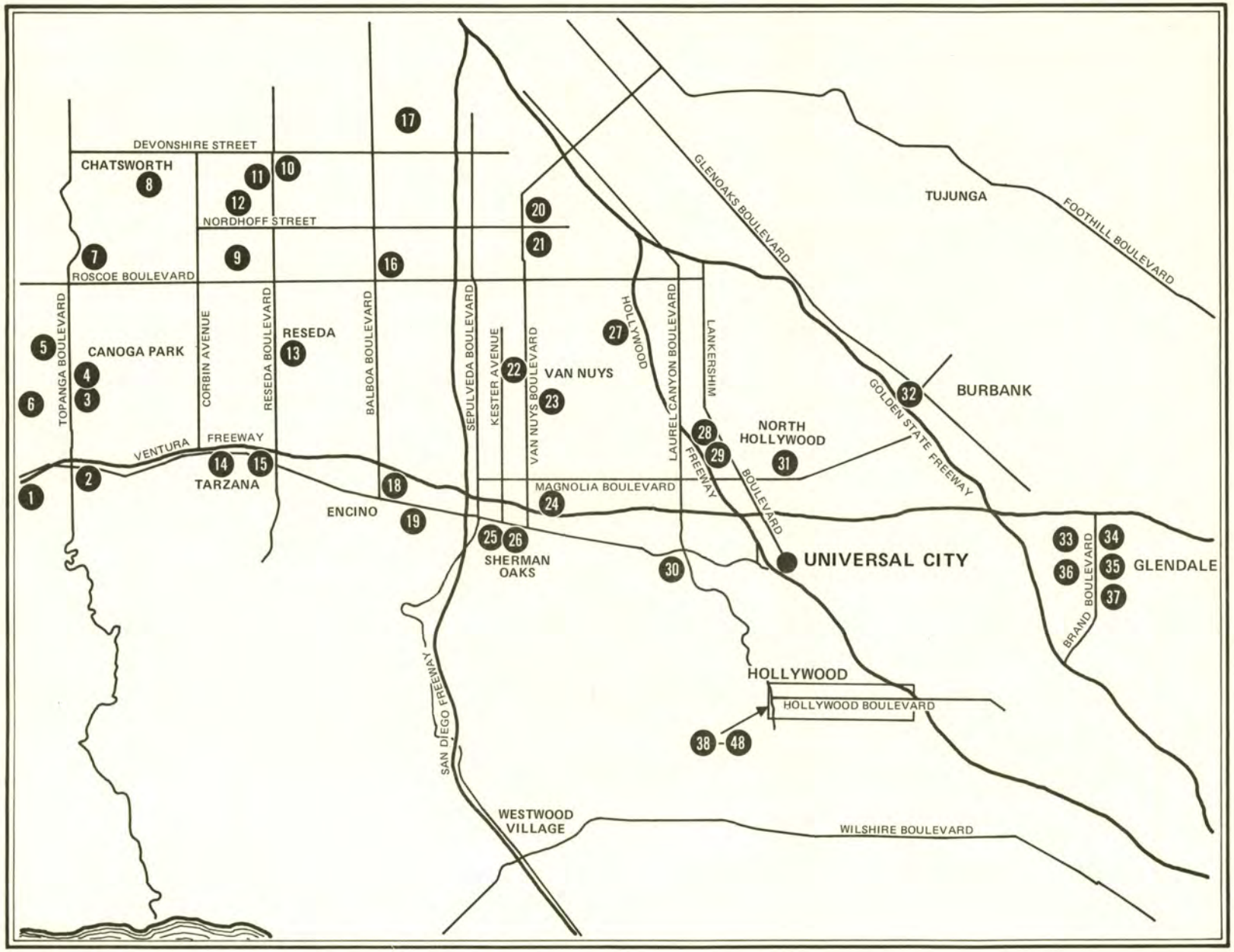
Movies, after their initial run, play in subsequent runs in any of these ranges.

COMPETITIVE THEATER STATUS

Theater Inventory

Figure 1 presents the locations of theaters that will compete for the same general population as the intended motion picture houses at Universal. Normally, large circuit exhibitors claim the theater market within 15 minutes driving time. Universal City, like Westwood should claim market support from residents up to 30 minutes of driving time away from the site, primarily because of the synergistic attraction of the "counter-culture" complex.

Competition for the theater audience at Universal movie houses will be the strongest from Hollywood, Glendale, and the San Fernando



Source: Economics Research Associates.

Figure 1

THEATER INVENTORY

LEGEND, Figure 1

	Theatre	Circuit	Seating Capacity
1.	Valley Circle, Woodland Hills	(General Cinema)	988
2.	Art, Woodland Hills	(Independent)	450
3.	Topanga, Woodland Hills	(Pacific)	1,404
4.	Twin, (by Easter)	(General Cinema)	n.a.
5.	Baronet, Canoga Park	(Independent)	220
6.	Fox Fallbrook, Canoga Park	(National General)	882
7.	Holiday, Canoga Park	(General Cinema)	950
8.	Cinema, Chatsworth	(General Cinema)	900
9.	Cinema, #1, 2, 3, 4 Northridge	(Lippert)	350-350-300-300
10.	Fox, Northridge	(National General)	900
*11.	Peppertree Three (by Christmas)	(Independent)	n.a.
12.	Fashion Center Cinema #1, 2 3, Northridge	(General Cinema)	300 each
13.	Reseda, Reseda	(Pacific)	856
14.	Corbin, Tarzana	(National Cinema)	550
*15.	Six-Plex, (by December)	(Independent)	352-352-352 320-300-250
16.	Airport, Sepulveda	(Independent)	900
17.	Granada, Granada Hills	(General Cinema)	800
*18.	Twin (Ventura Boulevard and Hayvenhurst) (by December)	(General Cinema)	n.a.
19.	Encino, Encino	(Pacific)	850
20.	Panorama, Panorama City	(General Cinema)	980
21.	Americana #1, 2, 3, 4, 5, Panorama City	(Lippert)	640-200-200 300-300
22.	Fox, Van Nuys	(National General)	814
23.	Capri, Van Nuys	(National General)	700
*24.	Twin, (in 1-1/2 years)	(General Cinema)	n.a.
25.	Sherman, Sherman Oaks	(California Sterling)	500
26.	La Reina, Sherman Oaks	(National General)	873
27.	Lankershim, North Hollywood	(Independent)	896
28.	El Portal, North Hollywood	(National General)	1,350
29.	Guild, North Hollywood	(National General)	462
30.	Studio, Studio City	(National General)	880
31.	Magnolia, Burbank	(Independent)	815
32.	Cornell, Burbank	(Principal)	1,400

	Theatre	Circuit	Seating Capacity
33.	Roxy, Glendale	(General Cinema)	742
34.	Alix, Glendale	(National General)	1,979
35.	Glendale, Glendale	(National General)	700
36.	Capitol, Glendale	(United Artists)	700
37.	Sands, Glendale	(Independent)	700
38.	Chinese, Hollywood	(National General)	1,520
39.	Lowes, Hollywood	(General Cinema)	1,474
40.	Hollywood, Hollywood	(Pacific)	1,596
41.	Egyptian, Hollywood	(United Artists)	1,590 1/
42.	Vogue, Hollywood	(National General)	807
43.	New View, Hollywood	(Pacific)	400
44.	Lowes Holly, Hollywood	(General Cinema)	949
45.	Fox, Hollywood	(National General)	756
46.	Pacific, Hollywood	(Pacific)	780
47.	Vine, Hollywood	(Independent)	n.a.
48.	Pantages, Hollywood	(Pacific)	1,512

n.a. means not available.

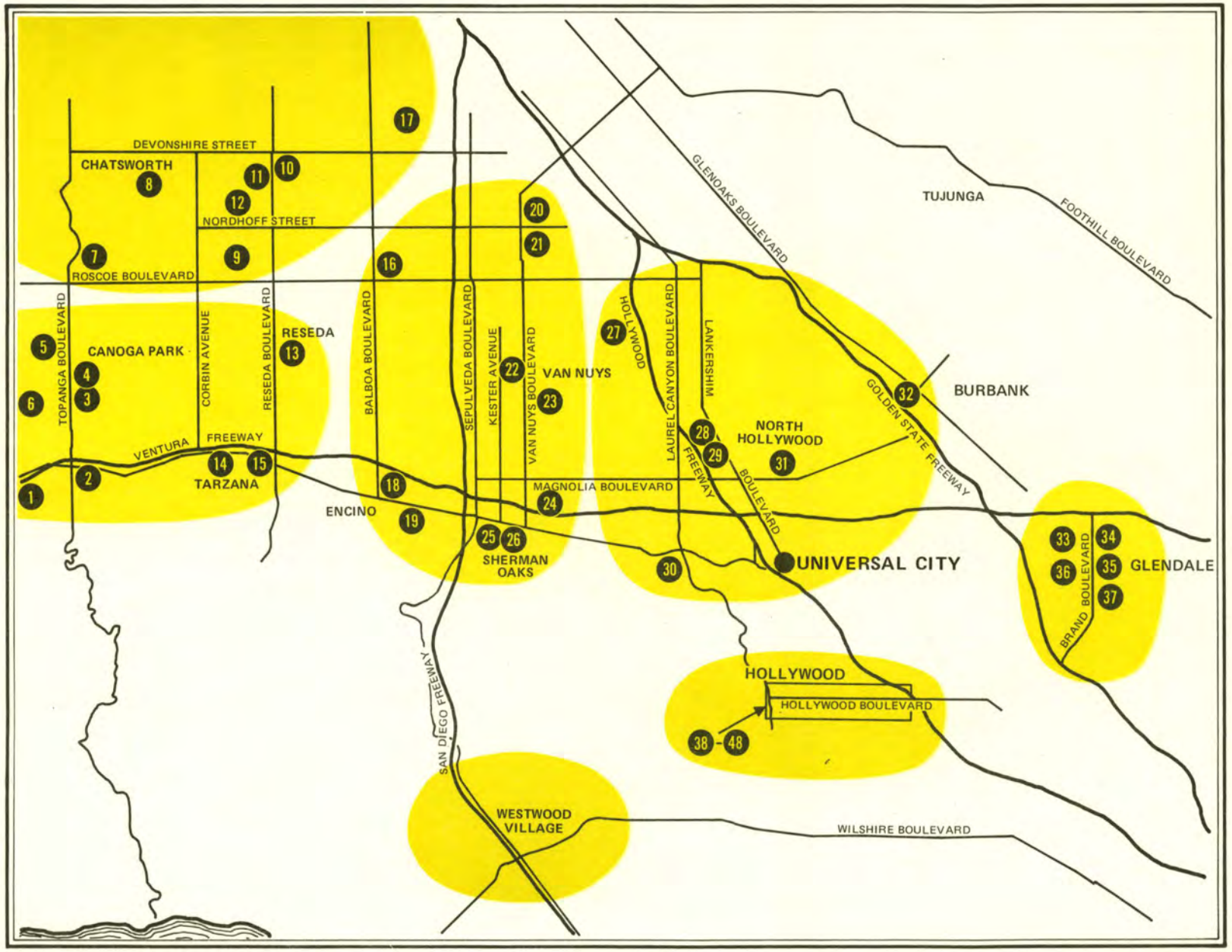
1/ Includes Triplex of 1,340-132-118 seats.

Valley. Exhibitors in Westwood exist in a well-established but distant movie center, and should have little affect on the film attendance at the proposed site. Similarly, theaters along Wilshire Boulevard should not directly affect the proposed installation.

Competition for the theater audience will also manifest itself in the exhibitor's bidding for films. The San Fernando Valley is divided into four booking zones, determined as the East Valley, the Central Valley, the Northwest, and the Southwest areas. In addition, Glendale and Hollywood are considered separate booking zones. In essence, each booking zone competes for the same available films. The booking areas affecting the subject property are presented in Figure 2. Universal is located in the East portion of the San Fernando Valley and will compete for films with the Guild, Studio, El Portal, Lankershim, and Magnolia theaters. The Studio is the most successful, but all theaters in the East Valley are old, provide little or no parking, and are in areas that have little retail and social night time activities. Universal theaters will have a distinct advantage over competing facilities in the same booking zone in attracting the young movie audience. In addition to its advantage over theaters in the same zone, the night-time complex will attract theater goers who would typically attend movies in other zones.

New Theaters in the Valley

As denoted by an asterisk in the legend to Figure 1, there will be 13 additional theater screens in the San Fernando Valley within the next year, all located in zones other than the East Valley. These additional screens will in turn increase the demand for films in each booking zone and heighten the bidding costs for movies. Essentially, with a fixed supply of movies, film costs will increase. Overconstruction in certain areas will force unsuccessful theaters within each zone to display X-rated films, older subsequent runs, or fold. The new planned theaters are all multi-screen and approximately 300 seats in size.



Source: Economics Research Associates.

Figure 2

FILM BOOKING ZONES IN
LOS ANGELES COUNTY

Admission Prices

Westwood admission prices generally are $3.00 for adults, $2.50 for students, and $1.00 for children under twelve years of age. Hollywood charges between $3.00 and $2.50 for first run exclusives and limited multiple runs. The San Fernando Valley, which until now has only shown subsequent runs, charges $2.00 for adults with the normal 50¢ reduction for students. Children's prices vary from 75¢ to $1.00.

Lease Arrangements

Because of potential anti-trust problems, the operation of the theaters is presented in a leasing format. In the conduct of specific negotiation, there are no standard rules governing theater leases, and the landlord typically will ask for triple net arrangements,[1/] in which the tenant pays the property taxes. Prevailing minimum rental yields have ranged from $4.50 to $5.75 per square foot (approximately $49.50 to $63.25 per seat). Leases presently under negotiation for 1973 and 1974 prime shopping center locations should yield minimum rents of $6.00 per square foot ($66.00 per seat); this premium rate will only be achieved in large regional shopping centers.

Minimum rent arrangements are made against percentages of box office revenues and concession revenues. Normally, 8 - 10% of box office receipts and 8 - 10% of concession revenues stand against the minimum rent for the theater. Despite a landlord's present tendency to ask for triple net deals, all types of arrangements for paying property taxes are prevalent. The landlord in some cases pays all or a percentage of the property taxes and in others pays the first year's taxes, with the tenant's obligation to pay any increase in subsequent years.

1/ Triple net leases oblige the tenant for building maintenance (except roof and walls) and property taxes, and insurance.

Lease rates are a function of how much an exhibitor wants a particular site location. Universal, in offering a name, parking, a unique location, advertising, and more importantly an entertainment complex that will generate attendance, will be in a good bargaining position to demand a minimum rent of $6.00 per square foot ($66.00 per seat) against 10 percent of the admission and concession revenue. Responsibility for the property taxes also should be transferable to the tenant. The duration of a lease generally ranges from 15 to 25 years. The shorter lease offers some advantage in renegotiation and cancellation. The longer lease has advantages in stability over time.

Revenues for Theater Operations

Box office revenues depend entirely on the film products shown. Achieved box office grosses for selected theaters in Los Angeles are shown in Table 5. The importance of film product is seen in the vast difference of Loews' performance in Hollywood for 1971 against 1972 with "Godfather" having shown for a 16-week period in 1972.

Two of the successful multi-auditorium theaters, Americana Cinema's 1 - 5 in Panorama City and United Artists Del Amo fourplex grossed $700,000 (approximately $13,500 per week) and $643,000 (roughly $12,400 per week), respectively. Each theater achieved these grosses charging a top admission price of $2.00. The seating sizes for these theaters are shown below and essentially indicate that theaters with 300 seats are large enough to generate respectable grosses:

Americana	640 - 300 - 300 - 200 - 200
Del Amo	300 - 300 - 300 - 280

The Del Amo fourplex generated substantial day-time attendance due to the fact that the theater is used as a babysitting facility.

Particularly worthy of note is the comparison of two first-run houses in Westwood. Cinema 1 in the AVCO triplex, showing first-run

Table 5

BOX OFFICE GROSSES FOR SELECTED THEATERS IN LOS ANGELES

Theater	Seats	Type of Movies	Period	Box Office[1/] Total Gross	Box Office[1/] Per Week	Box Office[1/] Per Seat Per Year
Bruin, Westwood	876	Exclusive Runs	1971 (51 weeks)	$ 415,000	$ 8,100	$483
			1972 (40 weeks)	580,000	14,500	861
Lowes, Hollywood	1,474	Exclusive Runs	1971 (48 weeks)	500,000	10,400	367
			1972 (40 weeks)	1,500,000	37,500	n.a.
Americana Cinema 1-5, Panorama City	1,640	Limited Multiple Runs	1971	700,000[2/]	13,500	427
Del Amo Fourplex, Del Amo	1,180	Limited Multiple Runs	1971	643,000	12,400	545
Avco Triplex, Westwood	2,369	Exclusive	1972 (16 weeks)	552,400	34,500	n.a.
(Cinema 1)	(1,100)			(343,500)	(21,500)	
(Cinema 2)	(485)			(69,300)	(4,300)	
(Cinema 3)	(784)			(139,600)	(8,700)	
United Artists Fourplex, Westwood	1,620	Exclusive	1972 (7 weeks)	198,200	28,300	n.a.
(Cinema 1)	(630)			(145,700)	(20,800)	
(Cinema 2, 3, 4)	(990)			(52,500)	(7,500)	

n.a. means not available.

1/ Exclude concession revenues.

Source: Economics Research Associates.

films like "Butterflies are Free" and "Play it Again, Sam" grossed an average of $21,500 per week for a 16-week duration in a house with 1,100 seats. Cinema 1 in the United Artists fourplex, with only 630 seats, grossed an average of $20,800 for a seven-week period showing of "The New Centurions." A theater of 630 seats is sufficient in size to accommodate first-run movies and achieve good admission revenues.

RECOMMENDED THEATER CONFIGURATION

Because of product flexibility and the economic advantage of spreading overhead, ERA recommends a fourplex for the night-time center. Despite construction of new theaters in the San Fernando Valley, Universal remains in a booking zone with few theaters and no intended theater construction. These theaters should intercept some attendance ordinarily traveling to Westwood or Hollywood for an evening's entertainment. Four new screens in the East Valley will not put a squeeze on film products, especially with one auditorium showing specialty films (foreign, domestic, classic, and underground films).

ERA recommends theater sizes of 650 - 300 - 300 - 200, and considers it appropriate to give the smallest house a "funky" atmosphere perhaps with seating on the floor and the possible inclusion of a small liquor bar. The small theater could also have a stage and be used for alternate reasons, such as a legitimate theater. Additional usage for the facility will probably result from the activities of the Studio tour.

The capacity of the second level units (300 seats) is selected as a matter of minimizing risk. A second large auditorium of 650 seats would increase the risk involved in obtaining highly popular films. Theaters sized at 300 seats, appropriate for subsequent runs, have historically generated good yearly grosses.

Recommended admission schedules for limited multiple runs and specialty movies are $2.00 for adults, $1.50 for students, and $1.00 for children, conservatively set at second-run rates and directly competitive

with the local area. Logical programming for specialty films could include weekly or bi-weekly changes in order to increase attendance and overall variety within the complex.

CONSTRUCTION AND EQUIPMENT COSTS

Typical shell construction costs range between $20 and $30 a square foot. For the proposed fourplex, an allowance of $29 per square foot covers necessary air conditioning, wiring, and plumbing. Using a factor of 12 square feet per seat, total cost of the shell will be $504,000 for 17,400 square feet (1,450 seats x 12 square feet x $29 per square foot).

Equipment costs for the theater typically are assumed by the tenant. The total furnishings for the four theaters with 1,450 seats should be approximately $225,000, itemized below:

Booth[1/]	$100,000
Chairs	69,000
Concession Stand	12,000
Drapes, Rigging, Screen (at $8,000 per auditorium)	32,000
Carpets	10,000
Ticket Machines, Cash Register	2,000
Total[2/]	$225,000

1/ Includes Simplex 4 automated two projector 35mm equipment in all four theaters, Optical Radiation Lamp House, and Simplex Sound, 70mm and 16mm two projector equipment.

2/ Source: National Theater Supply and Economics Research Associates.

PRO FORMA FOR THEATER OPERATOR

The estimated theater pro forma for both lessee and lessor are shown in Table 6. A projected box office gross of $11,500 per week is a reasonable average for the year, at the recommended $2.00 adult price. Slightly over 300,000 people are estimated to attend the theaters during the first year. This is equivalent to 16 shows per week with an average capacity utilization of approximately 28 percent. Each person will spend approximately $0.30 at the concession stand, with typical profit levels of 60 percent. Drinks and popcorn account for the bulk of concession sales.

The pro forma is generated assuming a lease arrangement to a national exhibitor, with the key dollar figures to Universal being the rent at $6.00 per square foot and the property taxes at $16,100. Gross profit to the lessee is approximately $107,140.

It is a subjective judgment of the research effort that a first-run exclusive or limited multiple runs can be achieved at the intended movie theaters; but because of the political aspects of booking these runs, the theaters are treated as showing mini-multiple and subsequent runs. This is pertinent to an assessment of the conservativeness of these projections. The actual placement of exclusive or limited multiple runs at the site will depend on (1) changing the established booking pattern for first run, (2) obtaining an exhibitor with strong booking power, (3) offering a substantial front end guarantee for the film and/or (4) developing a record of good box office grosses over time.

Matinee attendance can be expected only on weekends. Saturday matinee performances, given a good film, normally can draw a house of 20 to 30 percent of capacity, whereas Sunday matinees can achieve 30 to 40 percent capacities. Attendance forecasts are not predicated on any tour visitor interest. Tour visitors, however, should add support to the normal evening attendance of the entire complex.

Table 6

PRO FORMA FOR FOURPLEX THEATER OPERATOR
(Showing Lease Payments to the Lessor)

Admissions (at $11,500 per week)	$598,000
Concessions (at $0.30 per capita)	98,700
Total Revenue	$696,700
Expenses:	
Film Rental (at 40 percent of gross)	$239,200
Rent (at $6.00 per square foot) 1/	104,400
Payroll (at $2,250 per week)	117,000
Advertising (at 7 percent of gross)	41,860
Concession Supplies (with 60 percent profit margin)	36,000
Other Expenses	35,000
Property Taxes ($13 per $100 assessed value) 1/	16,100
Total Expenses	$589,560
Gross Profit to Theater (before Interest, Depreciation and Taxes)	$107,140

1/ Payable to MCA. If gross revenues exceed $1,044,000, rent is computed as a percentage (10%) of gross revenues.

Source: Economics Research Associates.

Section V

MUSIC FACILITIES

INTRODUCTION

Market support and thus attendance for folk and hard rock entertainment facilities is a function solely of the quality of the acts appearing on stage and difficult to project empirically. On the favorable side Southern California is not overloaded with established centers of entertainment for the young. Also, this site plan is conducive to establishing a sense of destination for this kind of activity. Problems in establishing a successful operation of this kind are essentially operational and managerial. Good acts are expensive, and the potential profit for music entertainment facilities increases as quality performing groups are played at moderate costs. Building a reputation for quality acts with the public and the talent agent is a hard slow process, requiring negotiations with record companies, trading favors with agents and managers, and building personal relationships within the music business. In the aggregate, it is a conclusion of this analysis, that this section of the complex contributes a major part of its appeal.

SUCCESSFUL ESTABLISHMENTS

The Troubadour and Whisky a Go Go are the premier folk and hard rock clubs in Los Angeles, and their success is attributed to their ability to consistently sign name entertainment. The operator of the Troubadour is successful at booking acts with subsequent options for return engagements. The Troubadour has a history of debuting acts as favors to agents and managers for a weekly cost of approximately $1,500. The key to profitability is the option for return performances in subsequent years at $2,000 a week during the second engagement and possibly $2,500 a week during the third. The succeeding performances at these rates represent a fraction of the

value when the act has become a heralded group. The Troubadour has established club loyalties among the various agents, managers, and performers. Booking favors are the essence of the relationships that have developed in this operation.

The Whisky a Go Go also has become a showcase for new entertainment. The majority of deals for hard rock entertainment are made with record companies, who put up guarantees for allowing new groups to perform. Because of these accommodations, new acts playing at the Whisky a Go Go are essentially minimum risk operations. The record company subsidizes press parties, advertising, and publicity costs.

RECOMMENDATIONS FOR UNIVERSAL CITY

Given Universal City's exposure to talent and booking personnel, ERA considers it appropriate for each rock entertainment facility to accommodate 400 people. Each rock house should be planned with a space factor of 20 square feet per person, which will cover bar, kitchen, and all stage space requirements. Shell construction approximates $25.00 per square foot. Total construction costs for the folk and hard rock houses is $400,000 (2 x 400 seats x 20 square feet per seat x $25.00 per square foot). Equipment and furnishings for each club is approximately $120,000 including $25,000 each for recording studio quality sound systems.

PRO FORMA FINANCIAL ANALYSIS

On the basis of Whisky a Go Go and Troubadour experience, Universal City can expect to pay an average of $4,000 per week for entertainment for the first year of operation of each club. Annual attendance of 116,000 is projected at an admission price of $3.43 per capita. The pro forma for first year operation of each club is shown in Table 7. It can be expected that each visitor will spend $2.00 on food and beverages or $232,000, 80 percent being in beverage sales. In each facility the first year indicates a return of 19.4 percent on sales and a net operating profit of $122,200.

Table 7

PRO FORMA FOR EACH MUSIC FACILITY
FIRST YEAR OF OPERATION

Admissions Income (at $3.43 per capita)	$398,000
Food and Beverage (at $2.00 per capita)	232,000
Total Revenues	$630,000
Expenses	
Performers (at $4,000 per week)	$208,000
Payroll	143,000
Advertising	35,000
Manager's Salary	20,000
Utilities	8,000
Insurance	4,000
Menu Expense	500
Payroll Taxes and Fringe Benefits	16,300
Repairs and Maintenance	6,000
Cost of Food and Beverages Sold (at 29%) 2/	67,000
Total Expenses	$507,800
Net Cash Flow Operating Profit	$122,200
Percentage of Sales	19.4%

1/ The cabaret and discotheque are treated as duplicate clubs.
2/ Estimated with 60% sales in beverages at 25% cost and 40% sales in food at 35% cost.

Source: Economics Research Associates.

It is expected that operating profit will increase to $150,000 annually for each facility after the third year of operation.

Section VI

OUTDOOR ENTERTAINMENT FACILITIES

Outdoor entertainment within the center includes concert attractions at the amphitheater appealing to the youth market and a unique grid-covered open plaza area designed for informal social gathering of audience and entertainers. The outdoor entertainment plaza features light shows, and films displayed on building exteriors. Several categories of live entertainment are contemplated in several dance, music and theatrical forms. It is the holding and distributing area and a fundamental part of the total show. The intent of the informal plaza area is to help integrate each of the separate entertainment facilities into a controlled and unified environment with a strong sense of place.

In addition to providing a social gathering area, the plaza offers fast food and beverage service from a common kitchen with the cabaret. Light snacks are emphasized. It is expected that a significant number of people attending the movie theaters and rock houses will gather in the plaza when the shows let out.

The Amphitheater crowd impact on the plaza area as well as all other facilities in the complex is an important source of support during its operating season. Based on the success of "Jesus Christ Superstar," the amphitheater is being enlarged to approximately 5,000 seats at an estimated cost of $400,000. A 12-week summer season of concert attractions is planned. The present MCA pro forma for the expanded amphitheater operation estimates an operating profit before depreciation and taxes of $250,000.

Projections for food and beverage sales in the plaza area are based on a twelve-week season with segments of support from (1) the theaters, (2) the amphitheater, and (3) the walk-in crowd whose sole purpose is to visit the plaza area. Per capita expenditures in the plaza area are set at

the level experienced by MCA at the International Festival ($0.50 per hour) adjusted downward by the amount of the fast food per capitas expected within the theater and Amphitheater operations.

Revenue from Amphitheater attendance is calculated as follows. Approximately 20 percent (60,000 persons) of the Amphitheater audience is expected to purchase food and beverages in the plaza area. With a length of stay of three hours, gross per capita expenditures are projected at $1.50. Deducting $0.35 per person for food expenditures during the Amphitheater performance leaves a net per capita of $1.15 available for food and beverages in the plaza area for this segment of visitation. This is equivalent to $69,000 in food sales.

Similary 20 percent (20,000 persons) of the movie theater audience is expected to purchase fast foods in the plaza area, generating a gross per capita of $1.50 in a three-hour visit. Deducting average per capita concession expenditures for movie attendance of $0.30 yields a net per capita figure in the plaza area of $1.20 for this segment of visitation. This provides an additional $24,000 in food and beverage sales.

The final segment of visitation in the plaza area is walk-in trade not directed elsewhere in the complex. This element of support is estimated at 12,000 visitors for the season with a short-stay visit of one hour yielding a net per capita of $0.50. Revenue from this segment of attendance is projected at $6,000.

Fast food sales for all three of these visitor elements totals $99,000. Cost of food is taken at 40 percent, and direct labor estimated at $30,000. Total operating profit for the plaza area food service is $29,400 annually.

Section VII

RESTAURANT FACILITIES

In addition to the other developments at the counter culture center, MCA is considering building restaurant capacity primarily to capitalize on the projected annual attendance of 2.3 million at the site and also to make the center a more complete and self-contained recreational entity. This section of the report treats the economic implications of such action.

As envisioned by MCA the proposed restaurant facilities would consist of two good quality restaurants integrated with the overall design of the counter culture center and designed to maximize on "self generated demand" through the creation of "atmosphere" using architectural design format, menus, food and service. Restaurants such as Chuck's Steak House, the Chart House, Alice's Restaurant, Cafe Figaro, and Poppy's would be considered as appropriate for the complex. In addition to such "self generating demand," location in an entertainment complex will allow the proposed restaurants to capitalize on being "where the action is."

MARKET SUPPORT

The following paragraphs treat four major sources of business generating support for the proposed restaurant facilities. First is the built-in captive trade of the tour (presented as an incremental per capita factor). Second is support from the visitation to the planned entertainment center (treated as an overall spending per capita for visitation to the center). Third is the local area resident market (developed as a market penetration standard). The fourth element is luncheon and dinner business derived from local employment (factored by number of visits, employment, and per capita expenditures).

The restaurants will attract a portion of the 1.3 million visitors taking the Universal Studios tour each year. With regard to tour visitors, per capita expenditures for food service presently average about $1.00 per capita. Experience at other attractions in Southern California suggests that this could easily be increased if good quality sit-down restaurant facilities are provided at reasonable prices and in an interesting, attractive setting. For this study, a conservative increment of almost $0.10 per capita is estimated. This additional business equates to approximately $130,000 annually in incremental luncheon business for the proposed restaurants.

With regard to evening visitors at the entertainment complex, food and drink expenditures amount to a substantial portion of total per capita. Overall experience in the amusement and entertainment industry in a wide variety of situations (Disneyland, Knott's Berry Farm, the Music Center, etc.) illustrates that high ticket attractions can still generate substantial food and beverage sales during or before and after performances. It is estimated that on-site restaurants justify an overall food and drink per capita for visitors to the complex in the range of $1.50 to $2.00. Approximately one million visitors will be attracted by the proposed MCA center, consisting of the following groups: 300,000 ticket holders for performances at the Amphitheater, 300,000 filmgoers, 232,000 persons drawn to the available rock clubs, about 12,000 visitors to the plaza area only, and about 200,000 whose principal purpose is to dine. At an overall $2.00 per capita, total projected expenditures for food and drink amount to over $2,000,000. Deducting expenditures for food and beverage sales in the various component entertainment facilities ($809,000)[1/] leaves approximately $1.2 million of derived annual market support for the restaurants in the complex.

1/ $150,000 in Amphitheater, $100,000 in movie theaters, $460,000 in rock clubs, and $99,000 in plaza area.

The largest source of market support for the proposed MCA restaurants is the local area residents estimated in Table 8. Within a radius of eight miles the local population will total 1.2 million by 1974. By 1974 per capita spending on food and beverage at restaurants within this area will increase to $190. A market penetration of one-half percent generates restaurant sales volume from local area residents of about $1.2 million.

In addition to these three elements, the restaurants in the center will gain substantial patronage both day and night from on-site and nearby employment. Quantification of this demand depends substantially on operational considerations yet to be determined--but as an example 10,000 employees using the restaurants an average of six times a year develop patronage amounting to about $200,000 per year at $3.00 plus per capita, covering both lunch and dinner service.

On the assumptions outlined in the foregoing material market support for the proposed restaurants (with some overlap) totals $2,740,000. This level of sales volume would support in excess of 900 seats at $3,000 per seat. In view of this substantial market support, an initial operation of two restaurants each with seating capacities of between 200 and 250 persons plus bar would appear to be well justified. As the project becomes established, additional restaurants of various types should be supportable.

DEVELOPMENT COST

Construction cost for the type of restaurant under consideration varies from $25 to $30 per square foot, excluding the cost of equipping and furnishing, expenses which typically are borne by the lessee. The amount of space provided by a restaurant may vary considerably depending on its architectural styling and features offered. However, most facilities require from 20 to 35 square feet of floor area per seat, a figure which includes kitchen space, lobby areas, and so forth. For present planning purposes a 25-square-foot figure is considered appropriate. On this basis, each restaurant recommended for inclusion in the MCA center would

Table 8

PROJECTED SUPPORT FOR EATING AND DRINKING PLACES
FROM LOCAL RESIDENTS
1974-1976

Year	Population[1/]	Per Capita Expenditures at Eating and Drinking Places	Total Expenditures
1974	1,210,888	$190	$230,006,000
1975	1,222,997	197	240,930,000
1976	1,235,227	205	253,227,000

1/ Estimated with 1 percent annual population growth within a 20-minute drive.

Source: Economics Research Associates.

require 5,000 square feet of space, to be constructed at a total cost of $137,500 each.

OPERATING RESULTS

For the financial analysis, sales volumes are based on two 200-seat restaurant configurations. Given a top-quality restaurant and the attractions at the Universal location, market support analysis indicates each restaurant can be expected to attract enough business to generate revenue of at least $3,000 per seat for the first two years of operation, or a total of $600,000, exclusive of lunch business. Depending on the type of restaurant, the number of turns per seat commonly varies from two to four during the evening meal period. At the MCA center late evening spending also can be attracted, but it will consist mostly of drinks and the average expenditure per capita will be lower. For planning purposes, ERA conservatively anticipates that each restaurant at the center can plan on an average of two turns per evening, with a prospective per capita of $4.10, exclusive of luncheon business. The projected pro forma statement of operations for a restaurant of the type planned is shown in Table 9. Expenses vary considerably by type of restaurant, but the annual operating profit of $84,600, or 14.1 percent return on sales is typical for an operation of this kind. After the third year it is assumed that revenue per seat will rise to a level of $3,500, increasing gross income per restaurant to $700,000 annually, and lessee operating profit to $111,000.

In addition to this night-time business, the heavy volume of day-time studio tour attendance and the number of office personnel employed in the area indicates that the restaurants can expect a substantial luncheon trade.

One element of studio visitation with high per capita luncheon potential is the tour visitor from Grey Line and Orange Coast. Approximately 100,000 visitors are in this category. It is estimated that 50 percent of this group (50,000 persons) will spend an average of $1.50 in the restaurant facilities, providing a total of $75,000 in new luncheon business.

Table 9

PRO FORMA STATEMENT OF LESSEE'S OPERATING PROFIT FOR A 200-SEAT RESTAURANT[1]

Income (@ $3,000 per seat)	
Food (@ 66% of total income)	$396,000
Liquor	204,000
Total Income	$600,000
Expenses	
Food Cost (@ 35% of sales)	$138,600
Liquor Cost (@ 25% of sales)	51,000
Labor Cost (@ 24.5% of total sales)	147,000
Advertising	10,000
Credit Card Collection	10,800
Equipment Rental	13,200
Insurance	5,000
Legal and Accounting	2,500
Linen and Laundry	7,600
Menu Expense	800
Office Salaries	6,000
Entertainment	15,000
Manager Salary	20,000
Operating Supplies	2,000
Payroll Taxes and Fringe Benefits	13,800
Rent[2]	42,000
Repairs and Maintenance	7,200
Taxes and License	1,200
Utilities	8,400
Property Taxes[2]	5,300
Miscellaneous	8,000
Total Expenses	$515,400
Net Operating Profit	$84,600
Return on Sales	14.1%

1/ An additional $309,000 sales at lunchtime is available to one or both of these restaurants.
2/ Payable to MCA.

Source: Economics Research Associates.

Luncheon potential in the remaining attendance (1.2 million) is estimated at 8 percent (96,000). Per capita spending for this group is also estimated at $1.50 for an annual incremental luncheon volume of $144,000. At the same time, there is an offsetting drop in snack food revenue in the tour center because those who choose to lunch in the restaurants will spend less in the tour center. Conceivably this loss in net income might be compensated for by an increased percentage rental for luncheon business.

Local employees are expected to account for a total revenue of $180,000 (10,000 employees at an average of six times per year at $3.00 per capita) in restaurant patronage. Approximately half or $90,000 of this value is anticipated at lunch, the remainder in the evening trade.

Total projected restaurant luncheon business from both studio visitors and on-site and nearby employment amounts to $309,000.

LEASE INCOME TO MCA

For operational reasons it is probable that MCA will lease the restaurants. Lease rate common in this type of situation will apply, with terms averaging 7 percent on total sales versus a minimum of $7.00 per square foot. On this basis, Universal will receive the following total payments from the two 200-seat restaurants recommended for construction, against a minimum payment of $70,000 annually.

Year	Projected Gross Sales		Annual Lease Income
	Lunch	Dinner	
1974-1975	$309,000	$1,200,000	$116,200
1976-1980	309,000	1,500,000	137,200

Lease income, as shown, includes $5,300 per facility in property taxes remitted by the lessee to MCA.

Section VIII

FEASIBILITY OF INCLUDING A SMALL LEGITIMATE THEATER

Legitimate theater in Los Angeles essentially is not a commercially viable product. The vast majority of live stage performances are conducted for reasons other than making money. To include a small legitimate theater in the entertainment complex, though complementary to the general programming and market positioning intended for the night-time attractions, would require subsidy. The high inherent downside risk of live theater substantially exceeds the upside potential. A typical small avant-garde production house can be expected to lose approximately $100,000 to $150,000 a year.

THEATER PERFORMANCE IN LOS ANGELES

The dominant and most powerful theater group in Los Angeles is the Civic Light Opera, which generally caters to an older and music-oriented audience. It performs four or five imported or produced musicals a year and survives on the strength of its 135,000 yearly subscribers. With this loyal following, the performances can be planned a full year in advance because the audience has, in a sense, prepaid production.

The avant-garde adjunct to the Civic Light Opera, the Mark Taper Forum, produces or imports five shows a year, and has 25,000 subscribers. In an ad hoc questionnaire included in an article by Dan Sullivan (theater critic) in the Calendar Section of the Sunday Los Angeles Times, in December 1971, the Mark Taper Forum was cited as the favorite theater in Los Angeles. The sample was restricted to readers of Dan Sullivan, the majority of whom subscribe to theater groups (65 percent of the respondents

belonging to a subscription list). Results of 1,700 responses to the question, "What is your favorite theater in Los Angeles?" are shown below:

Mark Taper Forum	48%
Dorothy Chandler Pavilion	26%
Huntington Hartford	20%
Ahmanson	18%
Company	3%

The Mark Taper Forum, despite its popularity among the theater-going public, loses approximately $300,000 a year on an operating budget of roughly $1,000,000 and is a good example of the economic failure of legitimate theater in Los Angeles.

The Company Theater, a small but highly acclaimed operation, breaks even with the help of a grant from the National Endowment of the Arts. Though evading union wage scales and paying performer salaries approximating $5.00 per week, the Company Theater still needed a $22,750 grant to meet its total expenses, with a total budget slightly under $90,000. With plans to pay actors $125 per week, the Company Theater's projected budget for fiscal year 1972 amounted to more than $283,000.

EXPECTED THEATER PERFORMANCE AT UNIVERSAL CITY

A legitimate theater group at Universal City would be forced to pay union wages to actors and would require a minimum working budget of $300,000. Theaters with capacities under 100 seats can operate without union requirements. However, a theater of this size could never generate sufficient revenue to justify its construction. Given the minimum wages[1/] for theater sizes greater than 99 seats, a reasonable theater size would be 399 seats. With an average admission price of $4.50 per capita, the theater would have to operate at nearly 80 percent capacity for four performances a week (Thursday through Sunday) to break even. A more realistic attendance would be 40 percent of capacity, and thus the operation would lose

1/ Minimum actor wage for theater size over 399 seats is $197 per week versus $85 per week for theater under 399 seats.

$150,000 for the year. The loss would have to be absorbed by Universal, donated by a foundation supporting live theater, or earned by alternative uses of the facility. For this reason inclusion of such a facility is not recommended.

Section IX

REQUIRED ADDITIONAL PARKING FACILITIES

Parking is a major operational consideration at the proposed entertainment complex. Sufficient parking spaces already exist to accommodate the projected attendance for the night-time facilities during the fall, winter, and spring months.

Universal City presently has 2,501 available parking spaces (1,191 in the Tivoli lot, 777 in the hotel lot, and 533 in the employee lot). The Tivoli and hotel lots provides sufficient support for the entertainment complex during the amphitheater off-season, but all three lots are needed to support the summer evening attendance peaks.

The key problem is to provide parking spaces for peak complex attendance. When each facility is at full capacity, a need for approximately 2,880 spaces is indicated broken down by category as follows:

Facility	Attendance	Parking Spaces
Amphitheater	5,000 at 3.0 per car	1,660
Theaters	1,450 at 2.5 per car	580
Restaurants	400 at 2.5 per car	160
Clubs	800 at 2.5 per car	320
Informal Area	400 at 2.5 per car	160
Total	8,050	2,880

The demand for parking spaces at full capacity is greater than the existing supply. An additional consideration should be given to the normal queuing of persons waiting for late evening shows. When this occurs the need for spaces can exceed 2,880 cars.

To house peak attendance, additional parking is required. The five acres available at the site are capable of handling 625 additional parking spaces. This would increase the total to 3,126 spaces and allow for 246 parking spaces for second shows, equivalent to 615 persons.

Estimated costs of developing five acres of parking are $217,800 or $1.00 per square foot plus grading costs of $168,000. Taking into consideration Universal's established lot operation an incremental operating cost of $30,000 per year is estimated. Total incremental attendance using paid parking is estimated at 542,000 annually (excluding restaurants[1/] and the Amphitheater[2/]). Approximately 44,000 people will attend movies on Saturday and Sunday afternoons and contribute $0.50 per car for parking. At 2.5 persons per car, the resulting parking revenue is $8,800. The remaining 498,000 will pay $1.00 per car and contribute $199,200 in parking revenue. Total incremental parking revenue projects at $208,000, operating profit at $178,000.

In effect restaurant parking is free to all patrons, as parking tickets will be redeemable within the restaurant facilities. It is recommended that special area and valet parking be avoided so that the total facility can be treated as one single reservoir of capacity.

Though not similar in concept, Century City's experience with twin theaters is relevant. ABC theaters suffer from a parking problem. Attendant parking for the theaters has been unsuccessful because of its expense to the theater audience and also the undue wait for each car when the audience empties.

1/ Restaurant patron parking expenditures will be redeemable within the facilities.

2/ Parking income is included in the operating profit of the Amphitheater.

Section X

FEASIBILITY ANALYSIS

DEVELOPMENT COSTS

Table 10 presents project site development, construction, architectural and engineering, and pre-opening costs. An allowance for interest on cost advances during construction is also included. The grand total of all these costs including pre-opening expense of $150,000 and interest during construction of $132,000 and contingencies of $350,000 is $3,589,800.

UNDISTRIBUTED PROJECT EXPENSES

Table 11 presents the detail of undistributed general expense on an annualized basis. Items included are common area maintenance, advertising, security administration taxes and so forth. Total projected annual expenses amount to $318,700. It is likely that some of these expenses, particularly common area costs may be allocable to certain tenants depending on leasing negotiations. However, ERA has not attempted to quantify at this time the extent to which MCA's non-allocated operating expenses might be reduced in this manner.

PRO FORMA PROJECTION

The project cash flow model is shown in Table 12. The model repays the corporate advance with annualized cash flow. The project on this assumption returns cash flow of $324,000 in the first year rising to $486,800 in the seventh year. During this seven-year period total cash flow return is $2,890,700, approximately 80 percent of total investment.

Table 10

ESTIMATED CONSTRUCTION COSTS

Category	Estimated Square Feet of Area	Estimated Cost per Scuare Foot	Total Development Costs
Theaters	17,400	$29.00	$ 504,000
Restaurants	10,000	27.50	275,000
Club Facilities	16,000	25.00	400,000
Club Equipment	N.A.	N.A.	240,000
Overhead Grid	N.A.	N.A.	200,000
Exterior Area	50,000	N.A.	125,000
Grading for Parking	N.A.	N.A.	168,000
Parking Area	217,800	1.00	217,800
Site Development	N.A.	N.A.	200,000
Subtotal			$2,329,800
Contingency (at 15%)			350,000
Subtotal			$2,679,800
Architectural and Engineering (at 8.5%)[1/]			228,000
Subtotal			$2,907,800
Amphitheater			400,000
Subtotal			$3,307,800
Pre-Opening Expenses			150,000
Interest on Funds During Construction			132,000
Total			$3,589,800

N.A. means not applicable.

1/ 8.5 percent is the recommended fee by the California Council of the AIA.

Source: Economics Research Associates.

Table 11

ANNUAL NON-DISTRIBUTED GENERAL AREA EXPENSES[1/]

Common Area and Parking Lot Maintenance (at $0.11 per square foot)	$ 29,500
Building Maintenance (at $0.35 per square foot)	15,200
Advertising	50,000
Plaza Area Entertainment	20,000
Insurance	10,000
Security	50,000
General Administrative	50,000
Real Estate Taxes (3 percent of increased valuation)	85,000
Contingency	9,000
Total	$318,700

1/ Expressed in 1972 constant dollars.

Source: Economics Research Associates.

Table 12

PRO FORMA FINANCIAL ANALYSIS FOR THE PROPOSED COMPLEX[1]/
1974-1980

	1974	1975	1976	1977	1978	1979	1980
Income from Operations							
Theater Lease[2]/	$ 120,500	$ 120,500	$ 120,500	$ 120,500	$ 120,500	$ 120,500	$ 120,500
Restaurant Leases[3]/	116,200	116,200	137,200	137,200	137,200	137,200	137,200
Music Clubs' Income	244,400	275,000	300,000	300,000	300,000	300,000	300,000
Informal Area Food Income	29,400	29,400	29,400	29,400	29,400	29,400	29,400
Amphitheater Operating Profit	250,000	250,000	250,000	250,000	250,000	250,000	250,000
Parking	178,000	178,000	178,000	178,000	178,000	178,000	178,000
Total Gross Revenues	$ 938,500	$ 969,100	$ 994,100	$ 994,100	$ 994,100	$ 994,100	$ 994,100
Less Expenses							
Undistributed General Area Expense	$ 318,700	$ 318,700	$ 318,700	$ 318,700	$ 318,700	$ 318,700	$ 318,700
Interest[4]/	287,200	261,300	232,100	199,800	166,700	131,800	94,900
Depreciation[5]/	298,100	291,600	284,800	227,900	220,800	213,500	205,800
Net Income before Taxes	$ 34,500	$ 97,500	$ 158,500	$ 247,700	$ 287,900	$ 330,100	$ 374,700
Income Taxes[6]/	8,600	24,400	39,600	61,900	72,000	82,500	93,700
Net Income after Taxes	$ 25,900	$ 73,100	$ 118,900	$ 185,800	$ 215,900	$ 247,600	$ 281,000
Add: Depreciation	298,100	291,600	284,800	227,900	220,800	213,500	205,800
Net Cash Flow	$ 324,000	$ 364,700	$ 403,700	$ 413,700	$ 436,700	$ 461,100	$ 486,800
Advance Balance at End of Year	$3,265,800	$2,901,100	$2,497,400	$2,083,700	$1,647,000	$1,185,900	$ 699,100

1/ Assumes repayment of original advance by annual cash flow.
2/ Includes $6.00 per square foot plus $16,100 for property taxes.
3/ Includes rent plus $5,300 from each restaurant for property taxes.
4/ Based on 8 percent interest on advance balance at end of previous year.
5/ Based on accelerated depreciation (150 percent) on improvements for 20 years and three-year straight-line for pre-opening costs.
6/ Equals 25 percent of total.

Source: Economics Research Associates.

IMPACT OF COMPLEX ON UNIVERSAL CITY

Tourism and recreation projects in general have a profound effect on land use. Establishment of the major recreation attraction will have a pronounced impact on surrounding land development. The projected additional attendance of the entertainment complex of approximately 1 million people will bring the total annual visitation to Universal City to approximately 2.3 million persons. This magnitude of annual visitation will effect land values on the surrounding subject property and enhance its office, hotel, commercial, and residential development. These influences are developed in a separate study of land use at the Universal site.

Appendix A

LIST OF REFERENCES CONSULTED FOR PROJECT

1. Arne Kalm
   Vice President
   Hollywood Turf Club

2. Irving Ludwig
   President
   Buena Vista Film Distribution Co.

3. Jerry Hopman
   Buena Vista Film Distribution Co.

4. Roy Evans
   West Coast Division Manager
   United Artists

5. Myrl Kavanaugh
   Vice President
   Edwards' Theaters

6. Larry Gleason
   Division Manager
   General Cinema Corporation

7. Art Silber
   Film Buyer
   General Cinema Corporation

8. Robert Laemmle
   Laemmle Theaters

9. Robert Benton
   Vice President
   SERO Amusement Company

10. Jack Hessick
    National Theater Supply

11. Steven Kutner
    Playboy Theaters

12. Sid Art
    Merrill, Lynch, Pierce, Fenner & Smith, Inc.

13. Jerry Palone
    Vice President
    National General Corporation

14. Lester Blumberg
Owner
Cornell Theater

15. Andrew Zimbaldi
Cabot, Cabot, and Forbes

16. Leonard Shannon
Publicity Department
Walt Disney Productions

17. Robert Lippert
Lippert Theatres

18. Stan Jensen
Manager
Fashion Square Four Theatres

19. William Miller
Manager
United Artists 4-plex in Westwood

20. Bruce Corwin
President
NATO

21. Olen Earnest
Inmarco, Inc.

22. Edward Parr
Great Lakes Properties

23. Syd Cassyd
BOXOFFICE Magazine

24. Dan Sullivan
Theater Critic
Los Angeles Times

25. Dr. Richard Toscan
Professor of Theater Arts Management
University of Southern California

26. Dr. John Cauble
Professor of Theater Arts Management
University of California at Los Angeles

27. Thomas Walker
Entertainment Director
Walt Disney Productions